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The Legislative Assembly of
British Columbia

FIRST REPORT

Select Standing Committee on Crown Corporations

4th Session, 37th Parliament

May 2003

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May 13, 2003

To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *First Report* of the Select Standing Committee on Crown Corporations for the Fourth Session of the Thirty-Seventh Parliament.

This *Report* covers the work of the Committee from October 2002 to May 2003.

Respectfully submitted on behalf of the Committee.

Mr. Ken Stewart, MLA
Chair

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COMPOSITION OF THE COMMITTEE

MEMBERS

Ken Stewart, MLA	Chair	Maple Ridge-Pitt Meadows
Harry Bloy, MLA	Deputy Chair	Burquitlam
Pat Bell, MLA		Prince George North
Susan Brice, MLA		Saanich South
Daniel Jarvis, MLA		North Vancouver-Seymour
John Les, MLA		Chilliwack-Sumas
Harold Long, MLA		Powell River-Sunshine Coast
Joy MacPhail, MLA		Vancouver-Hastings
Barry Penner, MLA		Chilliwack-Kent
Rod Visser, MLA		North Island
Dr. John Wilson, MLA		Cariboo North
Patrick Wong, MLA		Vancouver-Kensington

CLERK TO THE COMMITTEE

Craig James, Clerk Assistant and Clerk of Committees

COMMITTEE RESEARCHER

Audrey Chan, Research Analyst

TERMS OF REFERENCE

On April 9, 2003, the Select Standing Committee on Crown Corporations was appointed to review the annual reports and service plans of British Columbia Crown Corporations.

In addition to the powers previously conferred upon the Select Standing Committee on Crown Corporations, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee,

and shall report to the House on matters referred to the Committee during the Third Session of the Thirty-seventh Parliament and the current session and as soon as possible or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

COMMITTEE REVIEW PROCESS

On April 9, 2003, the Select Standing Committee on Crown Corporations was instructed by the House to review the annual reports and service plans of B.C. Crown Corporations, and to report on outstanding matters referred to the Committee during the Third Session of the Thirty-Seventh Parliament. This report contains the results of the review of the British Columbia Securities Commission, undertaken during the Third Session.

In its oversight role, the Select Standing Committee on Crown Corporations is mandated to conduct reviews of the service plans and annual reports of Crown corporations to enhance accountability and improve public performance reporting of Crown Corporations. As part of the review process, senior officers from the selected Crowns appeared before the Committee to present the corporation's annual report and service plan. To assess each Crown, committee members considered the 11 key reporting principles contained in the Committee's *Guide to Operations* (see Appendix A). Committee members also had the opportunity to discuss with these senior officers issues of concern or interest arising from the corporation's presentation to the Committee.

Since June 2002, the Committee has completed the reviews of five Crown corporations. Crown corporations scheduled for upcoming reviews include the Insurance Corporation of British Columbia.

Minutes and transcripts of committee proceedings, as well as previous committee reports, are available at www.leg.bc.ca/cmt.

The Committee would like to acknowledge the cooperation of the senior officers who appeared before the Committee, and look forward to the opportunity to meet with them again in future reviews.

REVIEW OF BRITISH COLUMBIA SECURITIES COMMISSION

On October 30, 2002, the Crown Corporations Committee met with the senior officers of the British Columbia Securities Commission (BCSC), and reviewed the following documents:

- British Columbia Securities Commission *Annual Report 2001-02*
- British Columbia Securities Commission *Service Plan 2002-2005*
- British Columbia Securities Commission information package

COMMITTEE OBSERVATIONS

In reviewing the BC Securities Commission, the Committee considered the 11 key reporting principles outlined in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:-

1, 3. The Committee found that BCSC has done a good job of explaining the organization's mandate, core products and services, operating environment and major challenges in its service plan. Members also felt that, in general, the goals and objectives set out in the service plan are clearly defined and consistent with and supportive of the achievement of the Commission's mandate.

2. By and large, the Committee found that the BCSC service plan is well organized and well thought out, and focuses on aspects of performance that are critical to the organization achieving its goals, objectives and intended results. In particular, members noted that "success criteria" are provided for each key strategic challenge identified in the service plan. Members found this a useful way of organizing the information because it outlines how the Commission will achieve its objectives.

4. Committee members were generally satisfied that the intended level of performance for the planning period is specified. However, they had a specific concern about the vagueness of one performance measure proposed by the BCSC – to attract "more" capital investment to the province by 2005. Members felt that a specific target should be provided for this general goal. They also felt that the service plan could be improved if three-year timelines, instead of two-year timelines, are provided for the Commission's strategic goals.

5. The Committee was only partially satisfied that the intended results identified in the service plan are clear, measurable, concrete and consistent with the organization's goals or objectives. Members felt that the measurements need to be more specific, and that the intended results for continuous compliance standards are unclear.

6. Overall, the Committee found that the BCSC service plan has demonstrated satisfactorily that intended results represent a reasonable/appropriate level of achievement given historical performance, resources available to the organization, and performance of similar organizations. For example, committee members appreciated the comparative data included in the service plan with respect to stakeholder feedback over the past two years, but would like to see more comparative performance information with respect to other Canadian commissions.

7. By and large, the Committee found that the BCSC service plan sufficiently demonstrates how resources and strategies will influence results – particularly with respect to the deregulation initiative.

8-9. Committee members were satisfied that financial and non-financial performance measures are provided to give an integrated and balanced picture of intended performance. They also agreed that the planned contribution of key activities to intended results or goals/objectives is adequately demonstrated in the service plan. Committee members also felt that the Commission has demonstrated that it is in control of its financial resources even with a projected operating deficit for 2002/03 and 2003/04 caused by the Commission's temporary fee reductions and deregulation initiative.

10. The Committee agreed that actual and intended performance results in the annual report and service plan respectively are set out in a clear comparison.

11. Overall, committee members were in agreement that the relevant core principles enunciated by Government policies are evident in the planning and operations of BCSC – particularly in reference to such principles as deregulation, the promotion of investments in BC, the reduction of fees to make the business environment in BC more competitive, and the better use of technology.

Issues for Future Review

Arising from its initial review, the Committee identified the following issues for ongoing monitoring and future review.

- **Regulation of securities market**

  In response to the witnesses' presentation on the Commission's deregulation initiative, members asked whether cutting regulations by one-third would affect the Commission's ability to ensure that investors are protected. The Commission Chair responded that the BCSC's approach to regulation is to move from a rule-based approach to a principle-based approach. In his view, the principle-based approach is more effective because the rule-based approach has tended to cause the industry to adopt a "loophole" mentality, as seen in recent incidents involving two American companies, Enron and WorldCom.

  Members also asked the witness about what benchmarks the Commission plans to use in its deregulation initiative. The witness informed the Committee that in September 2002, the Commission completed a count of its regulatory requirements imposed as of June 2001, which numbered around 21,000. The witness stated that the Commission is aiming to reduce the total regulatory requirements to 14,000 at the end of its deregulation initiative, although the ultimate goal is to produce a simpler set of rules, less onerous requirements, and a more effective regulatory system.

- **Compliance challenge**

  The Committee learned that one of the five major challenges identified in the Commission's service plan is the lack of compliance by some registrants. In light of the deregulation initiative, some committee members were interested in whether the Commission has increased penalties as a way of balancing against a less prescriptive regulatory system. The Commission Chair noted that the maximum penalty the Commission may impose was recently increased by legislation. He also informed members that as part of its deregulation proposals, the Commission will seek the additional authority to order people who have earned profits from not complying with the legislation "to disgorge their ill-gotten gains."

- **Restructuring of the Vancouver Stock Exchange**

  Concerning the two-stage transformation of the Vancouver Stock Exchange (VSE) to the Canadian Venture Exchange (CDNX) in 1999 to becoming a wholly-owned subsidiary of the Toronto Stock Exchange (TSE) in 2001, some committee members were interested in the witness's assessment of the successes and challenges. The witness was of the view that the Toronto takeover encountered fewer problems than the 1999 merger of the Vancouver and Alberta stock exchanges. He observed that the Toronto Exchange had made a commitment to maintain a presence in BC, which has since been implemented by the opening of a Vancouver office. Steps are also currently being taken to address the other concern for BC investors – that the entrepreneurial spirit and flexibility of the old VSE culture might be smothered by "excessive conservatism." The most significant challenge to date is the complexity of the rule book, which now includes "bits of two sets of rules that have somewhat different philosophies." He informed the Committee that some listed companies are unhappy with the merger, due to burdensome rules.

  On a related matter, some committee members asked if there is a duplication of the approval process between the Commission and the TSX. The witness responded that although there is some duplication of process, there is no duplication in terms of actual work done. He explained that in the past, the VSE had agreed to review prospectuses on behalf of the Commission in order to minimize the amount of duplication. However, the TSX Venture Exchange has recently discontinued this practice, so the Commission has resumed the task of prospectus reviews.

- **Impact of BCSC public education program on budget**

  In reviewing the Commission's service plan, some committee members observed that BCSC should consider devoting more resources toward its public education initiatives with a view to lowering demand for the Commission's enforcement activities. In response, the Commission Chair stated that the BCSC has struck a special investor and industry education committee to consider potential expansion of the Commission's educational program – although he cautioned that increased investment in the public education activities might take a while to pay off. He also told the Committee that the Commission is hoping to work with the Ministry of Education to develop curriculum materials related to financial investment skills.

  Other members were interested in the effects of the public education program in terms of the Commission's overall budget. The witness responded that the Commission's public education program is not intended to generate revenue, but to support the objectives of the Commission. Members learned that BCSC's public educational activities are operated on two levels: staff-run educational initiatives, and the disbursement of grants to organizations from the Commission's education fund which is built up through collected fines and penalties.

- **Performance targets**

  During their presentation, the witnesses stated that one of the measures for the Commission's success in achieving its objectives is "more private capital investment" and "more public company distributions." Members asked if measurable targets are associated with these objectives, or if they are put forward as a general goal for now. The witness responded that at present, there is no specific target, mainly because the Commission is only one factor in

determining what happens to investment activities in the province. The Commission plans to conduct a survey at the end of the year to identify the factors that might have led to an increase in investment capital in the province.

- **Comparative fee structures**

  Committee members were interested in how the fees collected in BC compare with those in other key Canadian jurisdictions. The Commission Chair told the Committee that prior to the fee reductions two years ago, BC was comparable to Alberta and lower than Ontario in some fees but higher than both in some others. The witness also observed that the Ontario Securities Commission has since reduced its fees and is currently undergoing a "massive" restructuring.

  On a related matter, some committee members asked about the relationship between the amount of fees collected in BC and the total dollars invested in BC companies. The witnesses responded that the amount of money invested in BC companies is not tracked on an ongoing basis.

- **Revenue forecast**

  The Committee learned that a deficit of $6.7 million is forecast for the Commission for the 2002/03 fiscal year. Some committee members noted that in reviewing the Commission's past financial statements, the Commission shows a decline in revenue of $2.5 million in the first quarter in 2002 from the same quarter in 2001. In light of this financial information, members asked the witnesses if they are nervous about their revenue forecast. The witnesses responded that they are not nervous about this year's forecast because the largest impact of fee reductions is generally felt in the first quarter. However, they noted that there is a bit of uncertainty as to how long this bear market will continue, and its impact on future revenue forecasts of the Commission.

COMMITTEE RECOMMENDATIONS

The Committee recommends that:

1. the BC Securities Commission address the Committee's assessment of the strengths and weaknesses of the corporation's annual report and service plan;

2. the BC Securities Commission implement the Committee's observations and suggestions for improvements in the corporation's future annual reports and service plans – in particular with respect to key reporting principles #4, 5 and 6 as outlined under the "Committee's Observations" section.

APPENDICES

APPENDIX A: "KEY REPORTING PRINCIPLES" CONSIDERED BY THE COMMITTEE

Questions	Yes	Partly	Not at All	Comments
1. Does the plan adequately explain the organization's mandate, core products and services, operating environment and major challenges?				
2. Does the plan focus on aspects of performance that are critical to the organization achieving its goals, objectives and intended results?				
3. Are the goals and objectives well-defined and consistent with and supportive of the achievement of the mandate?				
4. Is the intended level of performance for the planning period specified?				
5. Are the intended results clear, measurable, concrete and consistent with goals or objectives?				
6. Has the plan demonstrated satisfactorily that intended results represent a reasonable/appropriate level of achievement given: • Historical performance, • Resources available to the organization, and • Performance of similar organizations?				
7. Does the plan demonstrate how resources and strategies will influence results?				
8. Are financial and non-financial performance measures provided to give an integrated and balanced picture of intended performance?				
9. Is the planned contribution of key activities to intended results or goals/objectives adequately demonstrated?				
10. Are actual (Annual Report) and intended (Service Plan) performances set out in clear comparison?				
11. Are the relevant core principles enunciated by Government policies evident in the planning and operations?				

Other General Comments:

APPENDIX B: SCHEDULE OF CROWN CORPORATIONS REVIEWED

Crown corporation reviewed	Date of initial review
BC Buildings Corporation	July 8, 2002
BC Lottery Corporation	September 4, 2002
Tourism BC	October 2, 2002
BC Transit	October 2, 2002
First Report, 3rd Session, 37th Parliament – tabled November, 2002	
BC Securities Commission	October 30, 2002